ANNUAL REPORT

2018

BANKFIRST
CAPITAL

CONTENTS

MISSION	2
LEADERSHIP	3
LOCATIONS	4
FINANCIAL SUMMARY	6
LETTER FROM THE PRESIDENT & CEO AND CHAIRMAN OF THE BOARD	7
INDEPENDENT AUDITORS' REPORT	8
CONSOLIDATED BALANCE SHEETS	10
CONSOLIDATED STATEMENTS OF INCOME	11
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	12
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY	13
CONSOLIDATED STATEMENTS OF CASH FLOWS	15
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	17

THE MISSION OF BANKFIRST IS TO CONSISTENTLY MEET AND FREQUENTLY EXCEED THE EXPECTATIONS OF:

OUR CUSTOMERS
who expect competitively priced, high quality products and service from a knowledgeable, friendly, and responsive staff.

OUR SHAREHOLDERS
who expect prudent management and a sound return on their investment through dividends and stock appreciation.

OUR EMPLOYEES
who expect an enjoyable and challenging work environment where they are driven by teamwork then recognized and rewarded for performance on the merits of their individual accomplishments and the success of our bank.

LEADERSHIP

The leadership team has significant years of experience in the financial services industry and the Board of Directors and Advisory Boards compliment management through their diverse expertise and extensive knowledge of the communities we serve.

MANAGEMENT TEAM

Moak Griffin
President & CEO

Luke Yeatman
Chief Financial Officer

Gray Flora
Chief Investment, Risk Officer

Jim McAlexander
Chief Retail & Operations Officer

Marcus Mallory
Chief Banking Officer

Johnny Ray
Jackson Regional President

Ron Allen
Chief Credit Officer

BOARD OF DIRECTORS

David Barge
Macon, MS

Haley Fisackerly
Jackson, MS

Bill Freeman
Newton, MS

Moak Griffin
Columbus, MS

Joe Hollis
Columbus, MS

Frank Hopper
West Point, MS

Eddie Mauck
Columbus, MS

Phillip McGuire
Macon, MS

Gregory Rader
Columbus, MS

James R. Shearer
Starkville, MS

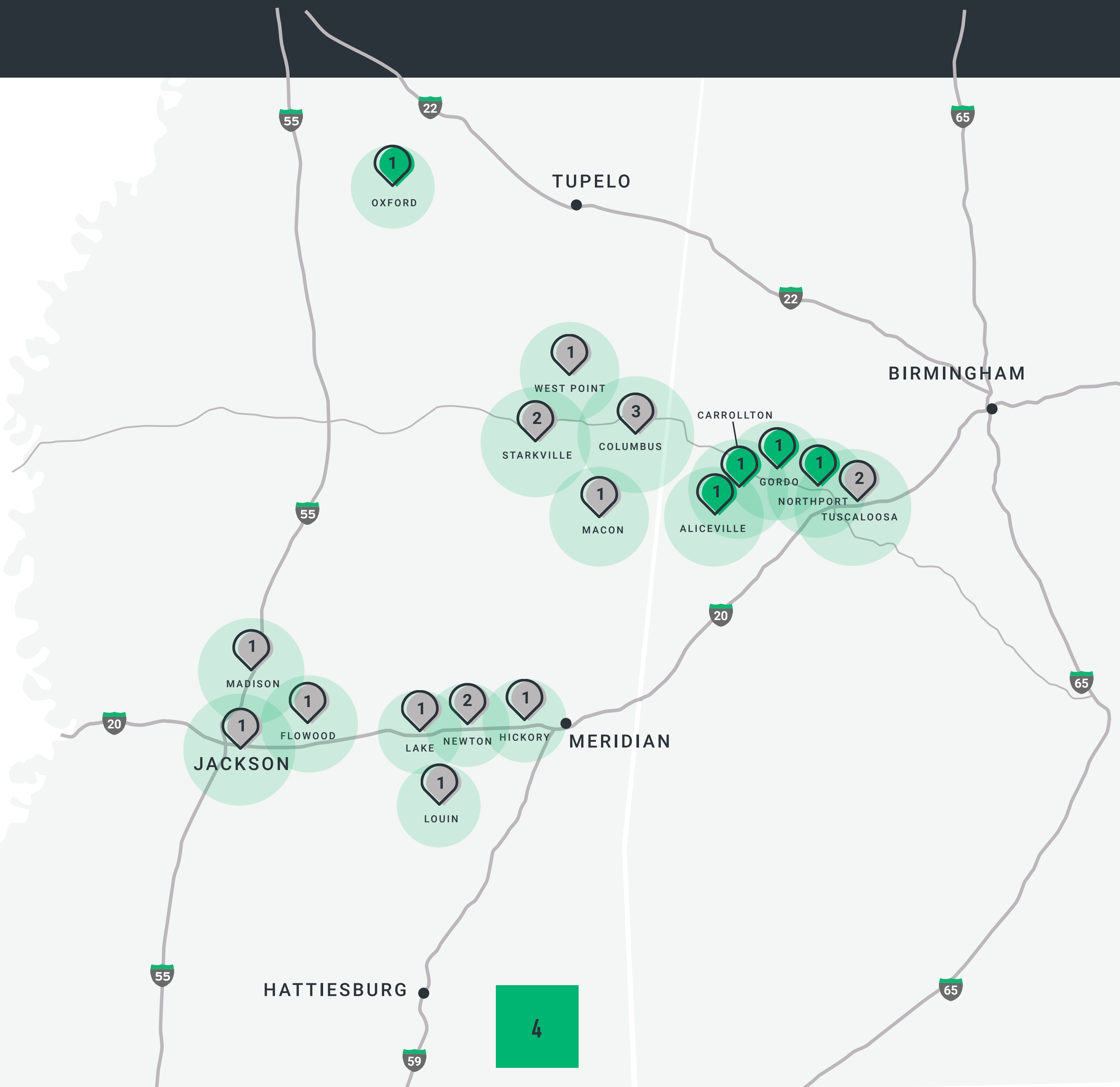
George Sherman
Starkville, MS

Camille Young
Jackson, MS

LOCATIONS

CONTINUED GROWTH

With the acquisition of HomeFirst Mortgage complete and the announcement of the acquisition of FNB of Central Alabama in 2018, BankFirst's footprint expands to Oxford while filling in the current market gap to Tuscaloosa.



11 ELEVENTH LARGEST BANK IN MISSISSIPPI

Macon, MS

Ranking based on December 31, 2018 Asset Size

BANKFIRST
CAPITAL

FINANCIAL SUMMARY

COMPANY EARNINGS

$9.8MM

TOTAL ASSETS

$975MM

DEPOSITS

$829MM

SHAREHOLDER RETURNS

BOOK VALUE

$23.30

DIVIDEND FOCUS

$0.47

EARNINGS PER SHARE

$2.53

BANKFIRST CAPITAL

FROM THE PRESIDENT & CEO AND CHAIRMAN OF THE BOARD

To our Shareholders,

2018 marked 130 years since the beginning of what is now known as BankFirst. For 130 years, our communities have come to expect competitively priced, high quality products and service from our knowledgeable, friendly, and responsive staff. Our shareholders have relied on prudent management and sound returns through dividends and stock appreciation. BankFirst employees have been driven by teamwork in enjoyable and challenging work environments where they are commonly recognized and rewarded for performance based on the merits of their individual accomplishments and the success of our bank.

Since 1888, our communities have been made better and relationships have deepened because of the outreach programs BankFirst and its employees support, lead, and sometimes pioneer. We have no intention of stopping.

In 2018, we made major strides toward our long-term profitability goal to enhance shareholder value through organic and acquired growth. BankFirst started the year with 16 locations in 12 communities. In March of 2018, we completed the acquisition of HomeFirst Mortgage, adding a mortgage production office in Oxford, Mississippi. By the end of 2018, we announced that BankFirst will be adding an additional five locations in four new communities once its acquisition of FNB of Central Alabama is complete.

BankFirst is committed to equipping our customers with tools to develop the skills needed to manage their financial futures. That's why, in 2018, we began offering interactive financial literacy learning experiences free of charge to all of our customers, which is intended to prepare communities with the skills they need for financial success.

Since 2012, BankFirst has consistently increased its Book Value per share, its Dividend to shareholders, as well as its Earnings Per Share. In addition, BankFirst's Balance Sheet and Net Income have been on the rise since 2013. We're even more delighted to announce that we believe BankFirst is on track to see these trends continue for the foreseeable future.

We look back on the year of 2018, and, for BankFirst Capital Corporation, it was one of growth. It solidifies BankFirst's stability as the eleventh largest bank in the state of Mississippi, putting us well on track to becoming the dominant, community-focused, independent bank in the markets we serve. Now, as we guide this institution into its 131st year, we invite you to join us—in one way or another—in continuing to make BankFirst a better way to bank.

Moak Griffin
President & CEO

David Barge
Board Chairman

T. E. LOTT & COMPANY
CPAs and Business Advisors since 1926
93 YEARS
QUALITY • INTEGRITY • SERVICE • PROFESSIONALISM

T. E. Lott, CPA (1889-1971)
T. E. Lott, Jr., CPA (1936-2018)
Thomas J. Buckley, CPA
Charles M. Hawkins, CPA, CBA
Jeffry H. Read, CPA
Vivian L. Yeatman, CPA
Bobby G. Shaw, CPA, CBA
Debby H. Gray, CPA, CPC
Clayton H. Richardson, III, CPA, CVA
J. Michael Prince, CPA, CSEP
Mark A. Vickers, CPA, CVA
Stewart R. Greene, CPA
Leslie W. Wood, CPA
J. Aubrey Adair, CPA, CGMA
Robert M. Whitaker, CPA
J. H. Kennedy, Jr., CPA
Lawrence E. Wilson, CPA
S. Dale Brown, CPA, CGMA
Joshua B. Shaw, CPA, CGMA
Katherine W. Little, CPA, CSEP
Lacie B. Junkin, CPA
Michael D. Watkins, CPA
Trent F. Yeatman, CPA
Camille G. Watkins, CPA
Nataliya Winters, CPA
Joseph Iupe, CPA
Wesley Hulett, CPA

COLUMBUS
221 North Seventh St.
P. O. Box 471
Columbus, MS 39703-0471
Tel: 662.328.5387
Fax: 662.329.4993

STARKVILLE
106 B South Washington St.
P. O. Box 80282
Starkville, MS 39759-0282
Tel: 662.323.1234
Fax: 662.323.1284

TUSCALOOSA
6834 Hwy. 69 South
Tuscaloosa, AL 35405
Tel: 205.759.4195
Fax: 205.759.1018

www.telott.com
info@telott.com

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
BankFirst Capital Corporation
Columbus, Mississippi

We have audited the accompanying consolidated financial statements of BankFirst Capital Corporation and its Subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Board of Directors and Stockholders
BankFirst Capital Corporation

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BankFirst Capital Corporation and its Subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

T.E. Lott & Company

Starkville, Mississippi
March 4, 2019

BankFirst Capital Corporation

Consolidated Balance Sheets

December 31, 2018 and 2017

(In Thousands, Except Per Share Data)

	2018	2017
Assets		
Cash and due from banks	$ 17,446	$ 19,068
Interest bearing bank balances	12,781	12,631
Federal funds sold	-	1,000
Available-for-sale securities	123,337	118,413
Loans	766,835	758,398
Allowance for loan losses	(8,300)	(7,027)
Loans, net of allowance for loan losses	758,535	751,371
Premises and equipment	19,906	17,430
Interest receivable	3,733	3,523
Goodwill	2,485	2,485
Intangible assets	1,548	1,780
Other	35,639	31,405
Total assets	$ 975,410	$ 959,106
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 828,631	$ 828,214
Notes payable	37,450	27,803
Subordinated debentures	11,186	13,686
Interest payable	646	425
Other	7,134	6,555
Total liabilities	885,047	876,683
Stockholders' Equity		
Common stock, $0.30 par value, 15,000,000 shares authorized, 3,877,545 and 3,855,074 shares issued and outstanding	1,163	1,157
Additional paid-in capital	29,923	29,379
Retained earnings	60,104	52,101
Accumulated other comprehensive income (loss)	(827)	(214)
Total stockholders' equity	90,363	82,423
Total liabilities and stockholders' equity	$ 975,410	$ 959,106

BankFirst Capital Corporation

Consolidated Statements of Income

Years Ended December 31, 2018 and 2017

(In Thousands, Except Per Share Data)

	2018	2017
Interest Income		
Interest and fees on loans	$ 35,766	$ 32,768
Taxable securities	2,125	1,720
Tax-exempt securities	816	958
Federal funds sold	111	30
Interest bearing bank balances	33	40
Total interest income	38,851	35,516
Interest Expense		
Deposits	4,407	3,504
Short-term borrowings	81	60
Federal Home Loan Bank advances	358	118
Other borrowings	783	862
Total interest expense	5,629	4,544
Net Interest Income	33,222	30,972
Provision for Loan Losses	1,680	1,470
Net Interest Income After Provision for Loan Losses	31,542	29,502
Noninterest Income		
Service charges on deposit accounts	4,706	3,720
Mortgage income	1,299	836
Interchange income	2,203	2,056
Net realized gains on available-for-sale securities	47	150
Other	1,604	1,400
Total noninterest income	9,859	8,162
Noninterest Expense		
Salaries and employee benefits	15,383	14,363
Net occupancy expenses	1,756	1,684
Equipment and data processing expenses	2,820	2,853
Other	8,987	8,288
Total noninterest expense	28,946	27,188
Income Before Income Taxes	12,455	10,476
Provision for Income Taxes	2,647	4,345
Net Income	$ 9,808	$ 6,131
Basic Earnings Per Common Share	$ 2.53	$ 1.96
Diluted Earnings Per Common Share	$ 2.51	$ 1.94

BankFirst Capital Corporation

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2018 and 2017

(In Thousands, Except Per Share Data)

	2018	2017
Net Income	$ 9,808	$ 6,131
Other Comprehensive Income (Loss)		
Available-for-sale securities		
Net unrealized gains (losses), net of taxes of $136 and $(780)	(536)	1,309
Less: reclassification adjustment for net realized (gains) losses included in net income, net of taxes of $12 and $56	(35)	(94)
Total other comprehensive income (loss)	(571)	1,215
Comprehensive Income	$ 9,237	$ 7,346

BankFirst Capital Corporation

Consolidated Statements of Stockholders' Equity

Year Ended December 31, 2017

(In Thousands, Except Per Share Data)

	Class A Common Stock		Class B Common Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, January 1, 2017	2,915,120	$ 874	199,116	$ 60	-	$ -	$ 13,560	$ 47,397	$ (1,429)	$ 60,462
Reclass of common stock	(2,915,120)	(874)	(199,116)	(60)	3,114,236	934	-	-	-	-
Issuance of 736,227 common shares	-	-	-	-	736,227	221	15,643			15,864
Net income	-	-	-	-	-	-	-	6,131	-	6,131
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	1,215	1,215
Restricted stock grants vested	-	-	-	-	4,611	2	176	-	-	178
Dividends on common stock ($.46 per share)	-	-	-	-	-	-	-	(1,427)	-	(1,427)
Balance, December 31, 2017	-	$ -	-	$ -	3,855,074	$ 1,157	$ 29,379	$ 52,101	$ (214)	$ 82,423

BankFirst Capital Corporation

Consolidated Statements of Stockholders' Equity

Year Ended December 31, 2018

(In Thousands, Except Per Share Data)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Income (Loss)	Total
Balance, January 1, 2018	3,855,074	$ 1,157	$ 29,379	$ 52,101	$ (214)	$ 82,423
Issuance of 17,300 common shares	17,300	5	371			376
Net income	-	-	-	9,808	-	9,808
Other comprehensive income (loss)	-	-	-	42	(613)	(571)
Restricted stock grants vested	5,171	1	173	-	-	174
Dividends on common stock ($.47 per share)	-	-	-	(1,847)	-	(1,847)
Balance, December 31, 2018	3,877,545	$ 1,163	$ 29,923	$ 60,104	$ (827)	$ 90,363

BankFirst Capital Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2018 and 2017

(In Thousands, Except Per Share Data)

	2018	2017
Operating Activities		
Net income	$ 9,808	$ 6,131
Items not requiring (providing) cash		
Provision for loan losses	1,680	1,470
Depreciation	1,014	1,056
Net amortization on securities	1,339	1,590
Net amortization on intangible assets	232	232
Net realized gains on sales of available-for-sale securities	(47)	(150)
Stock-based compensation expense	174	178
Deferred income taxes	(524)	2,539
Changes in		
Interest receivable	(210)	(336)
Interest payable	221	(59)
Other	1,899	(1,832)
Net cash provided by operating activities	15,586	10,819
Investing Activities		
Purchases of available-for-sale securities	(34,742)	(49,538)
Proceeds from maturities of available-for-sale securities	16,420	21,571
Proceeds from the sales of available-for-sale securities	11,386	27,695
Net additions to premises and equipment	(3,548)	(2,148)
Net (increase) decrease in		
Interest bearing bank balances	(150)	(7,364)
Federal funds sold	1,000	(1,000)
Loans	(8,853)	(25,105)
Investment in life insurance	(4,000)	-
Proceeds from life insurance	293	-
Federal Reserve Bank and Federal Home Loan Bank stock transactions	(1,290)	(282)
Proceeds from the sale of foreclosed assets held for sale	183	894
Net cash used in investing activities	(23,301)	(35,277)

BankFirst Capital Corporation

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2018 and 2017

(In Thousands, Except Per Share Data)

	2018	2017
Financing Activities		
Net increase (decrease) in		
Noninterest bearing deposits	$ (618)	$ 16,422
Money market, NOW and savings accounts	13,714	4,532
Certificates of deposit	(2,082)	(12,405)
Insured cash sweep deposits	(10,597)	(12,742)
Short-term borrowings	-	(2,888)
Proceeds from Federal Home Loan Bank advances	30,000	19,000
Repayment of Federal Home Loan Bank advances	(19,353)	(511)
Repayment of notes payable	(1,000)	(1,000)
Subordinated debenture redeemed	(2,500)	(2,500)
Proceeds from issuance of common stock	376	15,864
Dividends paid on common stock	(1,847)	(1,427)
Net cash provided by financing activities	6,093	22,345
Change in Cash and Due From Banks	(1,622)	(2,113)
Cash and Due From Banks, Beginning of Year	19,068	21,181
Cash and Due From Banks, End of Year	$ 17,446	$ 19,068
Supplemental Cash Flows Information		
Interest paid	$ 5,408	$ 4,603
Income taxes paid	1,987	2,750
Foreclosed assets acquired in settlement of loans	9	433

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

BankFirst Capital Corporation (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, BankFirst Financial Services (the Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in east central and central Mississippi and west Alabama. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Variable Interest Entities

A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE. As discussed in Note 9, the Company owns 100% of the common trust securities of various statutory trusts. The trusts are VIEs for which the Company is not the primary beneficiary and, accordingly, the trusts have not been consolidated into the Company's consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, other-than-temporary impairment and fair values of financial instruments.

Cash Equivalents

The Company has defined cash equivalents as those amounts included in the consolidated balance sheets caption "cash and due from banks."

The Company had deposits with correspondent banks that exceeded federally insured limits by $1,014 at December 31, 2018.

Interest Bearing Bank Balances

Interest bearing bank balances mature within one year and are carried at cost.

Securities

Available-for-sale debt securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, the Company recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in accumulated other comprehensive income (loss).

The Company's consolidated statements of income reflect the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income (loss). The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. The Company has not recognized any impairment losses in earnings during the years ended December 31, 2018 or 2017.

Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, less any impairment, and are reported in other assets on the consolidated balance sheets.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms

of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral less estimated cost to sell, if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	15 - 50 years
Furniture, fixtures and equipment	3 - 10 years

Long-lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2018 or 2017.

Goodwill

A qualitative assessment is performed on an annual basis to determine whether it is considered more likely than not the fair value is less than the carrying amount, including goodwill. If it is determined that it is more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment.

Intangible Assets

Intangible assets with finite lives are being amortized on the straight-line basis over a period of 10 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Federal Reserve Bank and Federal Home Loan Bank Stock

Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) stock are required investments for institutions that are members of the FRB and FHLB systems. The required investment in the common stock is based on a predetermined formula, carried at cost, classified as a restricted security, and periodically evaluated for impairment. Both cash and stock dividends are reported as income.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in income or expense from foreclosed assets.

Stock-based Compensation Plans

The Company has share-based employee compensation plans which are described more fully in Note 17.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The two components of income tax expense are current and deferred income tax expense. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment.

The Company and the Bank file consolidated U.S. federal, Alabama, and Mississippi income tax returns. With a few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2015.

The Tax Cuts and Jobs Act was enacted on December 22, 2017. Among other things, the new law (i) establishes a new, flat corporate federal statutory income tax rate of 21%, (ii) eliminates the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year, (iii) limits the deduction for net interest expense incurred by U.S. corporations, (iv) allows businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, and (v) eliminates or reduces certain deductions related to meals and entertainment expenses. As a result of the enactment of the Tax Cuts and Jobs Act on December 22, 2017, and, as required by US GAAP, we remeasured our deferred tax assets and liabilities based upon the newly enacted U.S. statutory federal income tax rate of 21%, which is the tax rate at which these assets and liabilities are expected to reverse in the future. We recognized a net tax expense related to the remeasurement of our deferred tax assets and liabilities totaling approximately $1,071, as of December 31, 2017. As a result, the Company’s unrealized loss balance in Accumulated Other Comprehensive Income (AOCI) was not revalued to reflect the new corporate tax rate. This impact, commonly referred to as the “stranded tax effect,” was taken under consideration by the FASB in January 2018 to address

concerns primarily raised by banking institutions, including distortion of net income and regulatory capital. In February 2018, to address the "stranded tax effect," the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which provides entities the election to reclassify the difference between the new and old corporate tax rates resulting from the 2017 Tax Legislation between retained earnings and AOCI for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company adopted ASU 2018-02 in 2018 and the impact resulted in a reclassification between AOCI and retained earnings of approximately $42.

Earnings Per Common Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits through the date of issuance of the financial statements.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized gains (losses) on available-for-sale debt securities.

Recent Accounting Pronouncements

FASB ASC Topic 842 "*Leases*" Update No. 2016-02. Issued in February 2016, this update affects any entity that enters into a lease (as that term is defined in this update), with some specified scope exemptions. The core principle of this update is that a lessee should recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease have not significantly changed from previous GAAP. In addition, the accounting applied by a lessor is largely unchanged from that applied under previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2018. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

FASB ASC Topic 326 "*Financial Instruments - Credit Losses*" Update No. 2016-13. Issued in June 2016, this update was intended to provide financial statement users with more decision - useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this update are effective for fiscal years

beginning after December 15, 2020. The Company is currently assessing the impact of the adoption of this standard on the Company's consolidated financial position.

FASB ASC Topic 350 "*Intangibles- Goodwill and Other*" Update No. 2017-04. Issued in January 2017, this update is intended to amend existing guidance to simplify subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendments require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The amendments in this update are effective for fiscal years beginning after December 15, 2020. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

FASB ASC Topic 815 "*Derivatives and Hedging*" Update No. 2017-12. Issued in August 2017, this update targeted improvements to Accounting for Hedging Activities and amends the hedge accounting recognition and presentation requirements to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities to better align the entity's financial reporting for hedging relationships with those risk management activities and to reduce the complexity of and simplify the application of hedge accounting. This accounting update will be effective on January 1, 2019 and is not expected to have a significant impact on our consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 consolidated financial statement presentation. These reclassifications had no effect on net income.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditors' Report, which is the date the consolidated financial statements were available to be issued.

Note 2: Available-for-sale Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of available-for-sale securities are as follows. Mortgage-backed securities consist of residential and commercial mortgage-backed securities issued by U.S. government-sponsored enterprises (GSEs).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
U.S. Treasury	$ 13,097	$ 17	$ 46	$ 13,068
U.S. GSEs	19,094	2	251	18,845
Commercial mortgage-backed securities	9,255	-	251	9,004
Residential mortgage-backed securities	51,438	99	748	50,789
State and political subdivisions	31,139	122	228	31,033
Corporate debt securities	375	-	-	375
Collateralized debt obligations	-	223	-	223
	$ 124,398	$ 463	$ 1,524	$ 123,337
December 31, 2017				
U.S. Treasury	$ 1,955	$ -	$ 5	$ 1,950
U.S. GSEs	22,212	60	87	22,185
Commercial mortgage-backed securities	9,393	-	138	9,255
Residential mortgage-backed securities	46,293	107	527	45,873
State and political subdivisions	36,206	512	83	36,635
Corporate debt securities	500	-	-	500
Collateralized debt obligations	2,195	170	350	2,015
	$ 118,754	$ 849	$ 1,190	$ 118,413

The amortized cost and fair value of available-for-sale securities at December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Within one year	$ 4,714	$ 4,705
One to five years	17,178	17,095
Five to ten years	11,562	11,585
After ten years	30,251	30,159
	63,705	63,544
Mortgage-backed securities	60,693	59,793
	$ 124,398	$ 123,337

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $64,674 at December 31, 2018, and $64,178 at December 31, 2017.

Gross gains of $163 and $678 and gross losses of $116 and $528 resulting from sales of available-for-sale securities were realized for 2018 and 2017.

The following table shows the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and 2017:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
December 31, 2018						
U.S. Treasury	$ 2,229	$ 2	$ 4,901	$ 44	$ 7,130	$ 46
U.S. GSEs	7,487	50	8,890	201	16,377	251
Mortgage-backed securities						
Commercial	-	-	9,004	251	9,004	251
Residential	7,793	90	28,409	658	36,202	748
State and political subdivisions	4,349	15	15,259	213	19,608	228
	$ 21,858	$ 157	$ 66,463	$ 1,367	$ 88,321	$ 1,524
December 31, 2017						
U.S. Treasury	$ 1,951	$ 5	$ -	$ -	$ 1,951	$ 5
U.S. GSEs	9,026	65	1,512	22	10,538	87
Mortgage-backed securities						
Commercial	7,181	60	2,074	78	9,255	138
Residential	14,280	139	20,433	388	34,713	527
State and political subdivisions	5,364	35	5,313	48	10,677	83
Collateralized debt obligations	-	-	1,845	350	1,845	350
	$ 37,802	$ 304	$ 31,177	$ 886	$ 68,979	$ 1,190

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. These unrealized losses on the Company's investments were caused by interest rate increases. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2018.

Note 3: Loans and Allowance for Loan Losses

Classes of loans at December 31 include:

	2018	2017
Secured by real estate		
Construction	$ 60,995	$ 74,936
Farmland	52,530	45,078
Residential real estate	191,139	189,292
Commercial real estate	349,057	324,636
Consumer	11,296	13,063
Commercial and other	101,818	111,393
	766,835	758,398
Allowance for loan losses	(8,300)	(7,027)
Loans, net	$ 758,535	$ 751,371

Activity in the allowance for loan losses based on loan class was as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision for Loan Losses	Ending Balance
Year Ended December 31, 2018					
Secured by real estate					
Construction	$ 1,053	$ -	$ -	$ 427	$ 1,480
Farmland	111	(42)	-	153	222
Residential real estate	1,025	(94)	20	200	1,151
Commercial real estate	1,180	(131)	22	692	1,763
Consumer	248	(432)	189	291	296
Commercial and other	1,469	(69)	130	(149)	1,381
Unallocated	1,941	-	-	66	2,007
	$ 7,027	$ (768)	$ 361	$ 1,680	$ 8,300
Year Ended December 31, 2017					
Secured by real estate					
Construction	$ 1,027	$ (386)	$ -	$ 412	$ 1,053
Farmland	29	-	50	32	111
Residential real estate	830	(238)	5	428	1,025
Commercial real estate	1,138	-	-	42	1,180
Consumer	180	(482)	162	388	248
Commercial and other	2,637	(657)	18	(529)	1,469
Unallocated	1,244	-	-	697	1,941
	$ 7,085	$ (1,763)	$ 235	$ 1,470	$ 7,027

The following tables present the balance in the allowance for loan losses based on loan class and impairment method at December 31:

	December 31, 2018 Allowance for Loan Losses Allocated to Loans Evaluated for Impairment			December 31, 2017 Allowance for Loan Losses Allocated to Loans Evaluated for Impairment		
	Individually	Collectively	Total	Individually	Collectively	Total
Secured by real estate						
Construction	$ 1,049	$ 431	$ 1,480	$ 429	$ 624	$ 1,053
Farmland	-	222	222	-	111	111
Residential real estate	142	1,009	1,151	239	786	1,025
Commercial real estate	47	1,716	1,763	42	1,138	1,180
Consumer	-	296	296	2	246	248
Commercial and other	690	691	1,381	715	754	1,469
Unallocated	-	2,007	2,007	-	1,941	1,941
	$ 1,928	$ 6,372	$ 8,300	$ 1,427	$ 5,600	$ 7,027

The following table presents the recorded investment in loans individually and collectively evaluated for impairment by loan class:

	December 31, 2018 Loans Evaluated for Impairment			December 31, 2017 Loans Evaluated for Impairment		
	Individually	Collectively	Total	Individually	Collectively	Total
Secured by real estate						
Construction	$ 5,147	$ 55,848	$ 60,995	$ 4,915	$ 70,021	$ 74,936
Farmland	2,298	50,232	52,530	-	45,078	45,078
Residential real estate	239	190,900	191,139	1,823	187,469	189,292
Commercial real estate	1,822	347,235	349,057	477	324,159	324,636
Consumer	-	11,296	11,296	2	13,061	13,063
Commercial and other	2,687	99,131	101,818	3,091	108,302	111,393
	$ 12,193	$ 754,642	$ 766,835	$ 10,308	$ 748,090	$ 758,398

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Construction Real Estate: Construction loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Farmland: Loans secured by farmland are generally made for the purpose of acquiring land devoted to crop production, cattle or poultry, the growth and management of timber or the operation of a similar type of business on the secured property. Sources of repayment for these loans generally include income generated from operations of a business on the property, rental income or sales of the property. Credit

risk in these loans may be impacted by crop and commodity prices, the creditworthiness of a borrower, changes in economic conditions which might affect underlying property values and the local economies in the Company's market areas.

Residential Real Estate: The residential real estate loan portfolio consists of residential loans for single and multifamily properties. Residential loans are generally secured by owner occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial Real Estate: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Commercial and other: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line-of-credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

The Company utilizes a risk grading system to assign a grade to each of its loans when originated. This grade is updated as factors related to quality of a loan change. The Company evaluates the risk grading system and allowance for loan loss methodology on an ongoing basis. The Company changed its risk grading system in 2018, but these changes did not have a significant impact on the Company's allowance for loan loss methodology. Loan grades 1 through 5 are considered satisfactory grades under the new grading system. A description of the current risk grades follows.

Virtually No Risk (1): Credits in this category are virtually risk-free and generally include the following attributes: repayment program is well-defined and achievable; repayment sources are numerous, and no material documentation deficiencies or exceptions exist. These loans will generally be secured by deposits in the bank or by government securities.

Minimal Credit Risk (2): Credits in this category are within guidelines and where the borrowers have documented significant overall financial strength. These loans have excellent sources of repayment, with no significant identifiable risk of collection, and conform in all respects to policy, guidelines, underwriting standards, and regulatory requirements.

Satisfactory Credit Risk (3): These loans exhibit satisfactory credit risk and have excellent sources of repayment, with no significant identifiable risk of collection. Current financial information on all borrowers and guarantors has been obtained and analyzed, and overall business operating trends are either stable or improving. These loans conform to bank policy and regulatory requirements with minimal credit or collateral exceptions that do not represent repayment risk.

Marginal Credit Risk (4): These loans have adequate sources of repayment with little identifiable repayment risk. These loans conform to bank policy and regulatory requirements with minimal credit or collateral exceptions that do not represent repayment risk. For existing loans, current financial information on all borrowers and guarantors has been obtained and analyzed, and overall business operating trends are stable with any declines considered minor and temporary.

Weak Pass (5): These loans show signs of weakness in either adequate sources of repayment or collateral but have demonstrated mitigating factors that minimize the risk of delinquency or loss have adequate sources of repayment with little identifiable repayment risk. Although the combination and/or severity of identified exceptions is greater for this risk grade, the exceptions may be properly mitigated by other documented factors that offset any additional risks.

Watch (6): These loans are currently performing satisfactorily but with potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Company's position at some future date. The weakness or issue could include a policy, credit or collateral exception. These loans may be impacted by economic conditions, that develop subsequent to the loan origination, that don't jeopardize liquidation of the debt but do substantially increase the level of risk.

Substandard (7): These loans are inadequately protected by the current sound net worth or paying capacity of the obligor or pledged collateral. Substandard loans will generally be dependent upon collateral for repayment. These loans have well-defined weaknesses jeopardizing orderly liquidation. Substandard loans may or may not be impaired.

Doubtful (8): These are loans with weaknesses inherent in the substandard classification and where collection in full is highly questionable based on currently existing facts. The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists. Doubtful loans will have some recognizable impairment.

BankFirst Capital Corporation

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(In Thousands, Except Per Share Data)

The following table details the amount of loans by loan grade and loan class:

	Grades (1 - 5)	Watch (6)	Substandard (7)	Doubtful (8)	Total Loans
December 31, 2018					
Secured by real estate					
Construction	$ 55,278	$ 167	$ 5,550	$ -	$ 60,995
Farmland	48,716	1,089	2,725	-	52,530
Residential real estate	178,598	8,187	4,354	-	191,139
Commercial real estate	342,281	3,669	3,107	-	349,057
Consumer	11,185	19	92	-	11,296
Commercial and other	97,421	1,351	3,046	-	101,818
	$ 733,479	$ 14,482	$ 18,874	$ -	$ 766,835

	Grades (A,B,C)	Watch (W)	Substandard (D)	Doubtful (F)	Total Loans
December 31, 2017					
Secured by real estate					
Construction	$ 69,532	$ 679	$ 4,725	$ -	$ 74,936
Farmland	41,668	3,057	353	-	45,078
Residential real estate	179,436	5,872	3,984	-	189,292
Commercial real estate	317,715	5,918	1,003	-	324,636
Consumer	12,748	172	143	-	13,063
Commercial and other	106,770	992	3,631	-	111,393
	$ 727,869	$ 16,690	$ 13,839	$ -	$ 758,398

The following tables present the loan portfolio aging analysis of the recorded investment in loans by loan class:

	Accruing Loans Past Due			Total		
	30 - 89 Days	90 Days or More	Non-accrual	Past Due and Nonaccrual	Current Loans	Total Loans
December 31, 2018						
Secured by real estate						
Construction	$ -	$ -	$ 5,138	$ 5,138	$ 55,857	$ 60,995
Farmland	262	-	168	430	52,100	52,530
Residential real estate	1,712	-	1,413	3,125	188,014	191,139
Commercial real estate	602	-	1,448	2,050	347,007	349,057
Consumer	43	11	17	71	11,225	11,296
Commercial and other	114	-	2,372	2,486	99,332	101,818
	$ 2,733	$ 11	$ 10,556	$ 13,300	$ 753,535	$ 766,835
December 31, 2017						
Secured by real estate						
Construction	$ 410	$ -	$ 4,518	$ 4,928	$ 70,008	$ 74,936
Farmland	486	-	72	558	44,520	45,078
Residential real estate	1,353	-	1,734	3,087	186,205	189,292
Commercial real estate	671	-	172	843	323,793	324,636
Consumer	116	7	18	141	12,922	13,063
Commercial and other	553	-	2,589	3,142	108,251	111,393
	$ 3,589	$ 7	$ 9,103	$ 12,699	$ 745,699	$ 758,398

Impaired loans include nonperforming loans and loans modified in troubled debt restructurings, if applicable. The following table presents loans evaluated for impairment by loan class.

	Unpaid Principal Balance	Recorded Loan Balance: With No Specific Allowance	Recorded Loan Balance: With a Specific Allowance	Recorded Loan Balance: Total	Specific Allowance	Average Recorded Loan Balance
December 31, 2018						
Secured by real estate						
Construction	$ 6,095	$ 297	$ 4,850	$ 5,147	$ 1,049	$ 5,031
Farmland	2,298	2,298	-	2,298	-	1,149
Residential real estate	239	-	239	239	142	1,031
Commercial real estate	1,943	1,486	336	1,822	47	1,149
Consumer	-	-	-	-	-	-
Commercial and other	3,027	281	2,406	2,687	690	2,889
	$ 13,602	$ 4,362	$ 7,831	$ 12,193	$ 1,928	$ 11,249
December 31, 2017						
Secured by real estate						
Construction	$ 5,765	$ 1,686	$ 3,229	$ 4,915	$ 429	$ 6,545
Farmland	-	-	-	-	-	-
Residential real estate	1,823	999	824	1,823	239	1,985
Commercial real estate	477	351	126	477	42	1,467
Consumer	2	-	2	2	2	1
Commercial and other	3,382	391	2,700	3,091	715	2,947
	$ 11,449	$ 3,427	$ 6,881	$ 10,308	$ 1,427	$ 12,945

The Company recognized interest income of $228 in 2018 and $154 in 2017 on loans evaluated for impairment that had specific allowances.

The restructuring of a loan is considered a "troubled debt restructuring" (TDR) if both (1) the borrower is experiencing financial difficulties and (2) the creditor has granted a concession. Concessions may include interest rate reductions below market interest rates compared to debt with similar characteristics, principal forgiveness, restructuring amortization of the debt and other actions to minimize potential losses.

At December 31, 2018 and 2017, the Company held a total $4,184 and $3,790 of loans modified in troubled debt restructurings, principally commercial real estate loans. The Company modified the terms of two loans in 2018 with a recorded investment of $2,298 as of December 31, 2018. These two modifications did not increase the allowance for loan losses. There were no additional loans modified in troubled debt restructurings during 2018 and 2017.

The Company allocated $732 and $361 of specific allowance for these loans as of December 31, 2018 and 2017. The Company had not committed to lend additional funds to any of these borrowers as of December 31, 2018 and 2017.

Note 4: Premises and Equipment

Major classifications of premises and equipment, stated at cost, follow.

	2018	2017
Land	$ 7,075	$ 4,436
Buildings and improvements	19,308	18,625
Furniture, fixtures and equipment	6,021	5,893
	32,404	28,954
Less accumulated depreciation	(12,498)	(11,524)
Net premises and equipment	$ 19,906	$ 17,430

Note 5: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2018 and 2017, were:

	2018		2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit intangible	$ 2,321	$ 773	$ 2,321	$ 541

Amortization expense for the core deposit intangible was $232 and $232 in 2018 and 2017. Estimated amortization expense for each of the following five years, based on current intangible assets, is:

2019	$ 232
2020	232
2021	232
2022	232
2023	232
	$ 1,160

Note 6: Other Assets

A summary of other assets at December 31 follows:

	2018	2017
Cash surrender value of life insurance	$ 25,124	$ 20,869
Foreclosed assets held for sale, net	551	791
Federal Reserve Bank stock	1,548	1,089
Federal Home Loan Bank stock	2,062	1,204
Deferred income taxes	2,924	2,251
Other	3,430	5,201
	$ 35,639	$ 31,405

Note 7: Deposits

Categories of deposits at December 31 follow:

	2018	2017
Noninterest bearing deposits	$ 154,582	$ 155,200
Interest bearing deposits		
Money market, NOW and savings accounts	438,642	424,928
Certificates of deposit of $250 thousand or more	54,972	36,711
Other certificates of deposit	159,617	179,960
Insured cash sweep deposits	20,818	31,415
Total interest bearing deposits	674,049	673,014
Total deposits	$ 828,631	$ 828,214

At December 31, 2018, the scheduled maturities of certificates of deposit follow:

2019	$ 116,891
2020	50,872
2021	18,544
2022	16,128
2023	12,154
	$ 214,589

Note 8: Notes Payable

Categories of notes payable at December 31 follow:

	2018	2017
Bank's FHLB advances	$ 30,700	$ 20,053
Company's note payable to a commercial bank	6,750	7,750
	$ 37,450	$ 27,803

The Company has advances from FHLB, which are collateralized by a blanket lien on first mortgage and other qualifying loans. The Company may not prepay certain of these single payment advances without paying a prepayment penalty. Certain of these single payment advances are subject to quarterly calls until maturity by FHLB. The following is a summary of these advances at December 31:

	2018	2017
Single payment advances maturing within 12 months		
Balance	$ 15,000	$ 19,000
Range of fixed interest rates	2.49% - 3.03%	1.57% - 1.59%
Single payment advances maturing after 12 months		
Balance	$ 15,000	$ -
Range of fixed interest rates	3.13% - 3.26%	-
Range of maturities	2020 - 2023	-
Monthly payment advances		
Balance	$ 700	$ 1,053
Approximate monthly payment	27	31
Range of fixed interest rates	3.12% - 5.16%	3.12% - 5.16%
Range of maturities	2021 - 2024	2018 - 2024

The Company has entered into a credit agreement (the Agreement) with a commercial bank consisting of a $5,000 revolving line of credit and a $10,000 term loan. This line of credit and term loan are secured by 53,264 shares of the Bank's common stock.

The Company's line of credit requires monthly interest payments and bears interest at 30-day LIBOR plus 2.50%, which was 5.02% and 4.07% at December 31, 2018 and 2017. There were no amounts borrowed under the line of credit at December 31, 2018 and 2017.

The Company's term loan has a fixed interest rate of 3.56% until maturity at August 27, 2022. The Agreement requires monthly principal payments of $83, plus accrued interest. The remaining unpaid principal balance will be due at maturity. The balance of the term loan was $6,750 and $7,750 at December 31, 2018 and 2017.

Scheduled principal payments of notes payable at December 31, 2018, follow:

	FHLB Advances	Company's Term Loan
2019	$ 15,329	$ 1,000
2020	5,341	1,000
2021	5,008	1,000
2022	8	3,750
2023	5,009	-
Thereafter	5	-
	$ 30,700	$ 6,750

Note 9: Subordinated Debentures

The following is a summary of subordinated debentures at December 31:

	2018	2017
Subordinated promissory notes	$ 5,000	$ 7,500
Subordinated debentures payable to statutory trusts	6,186	6,186
	$ 11,186	$ 13,686

Subordinated Promissory Notes

The Company offered subordinated promissory notes to a limited number of individuals and financial institutions, each of whom is exempted under applicable securities laws as of December 31, 2018. The remaining notes mature annually from July 15, 2019 through July 15, 2020, paying interest on a semiannual basis.

The following is a summary of subordinated promissory notes at December 31:

	Year of Maturity	Interest Rate	2018	2017
Series 2018	2018	4.50%	$ -	$ 2,500
Series 2019	2019	3.50%	2,500	2,500
Series 2020	2020	4.00%	2,500	2,500
			$ 5,000	$ 7,500

Subordinated Debentures Payable to Statutory Trusts

The Company owns the outstanding common stock of business trusts that have issued preferred capital securities to third parties. These preferred capital securities qualify as Tier I capital for the Company, subject to regulatory rules and limits. These trusts used the proceeds from the issuance of the common stock and the preferred capital securities to purchase debentures issued by the Company. These debentures are these trusts' only assets, and quarterly interest payments on these debentures are the sole source of cash for these trusts to pay quarterly distributions on the common stock and preferred capital securities. The Company has fully and unconditionally guaranteed the trusts' obligation with respect to the preferred capital securities.

Although the Company has not elected to do so, the Company has the right to defer the payment of interest on the subordinated debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on the subordinated debentures are deferred, the distributions on the preferred capital securities are also deferred. Interest on the subordinated debentures and distributions on the preferred capital securities are cumulative.

The Company has the right to redeem the debentures prior to maturity. Upon redemption of the subordinated debentures payable to a statutory trust, the trust will also liquidate its common stock and preferred capital securities. The subordinated debentures payable to Trust II have been eligible for redemption by the Company since September 15, 2008. The subordinated debentures payable to Trust III have been eligible for redemption by the Company since December 15, 2010.

The following is a summary of debentures payable to statutory trusts as of December 31, 2018 and 2017. Interest rates adjust quarterly for the debentures whose rates are indexed with LIBOR.

	Year of Maturity	Interest Rate	2018	2017
BankFirst Capital Statutory Trust II	2033	3-month LIBOR, plus 2.95% 5.75% (2018) and 4.64% (2017)	$ 3,093	$ 3,093
BankFirst Capital Statutory Trust III	2035	3-month LIBOR, plus 1.45% 4.25% (2018) and 3.14% (2017)	3,093	3,093
			$ 6,186	$ 6,186

Note 10: Other Expenses

A summary of other expenses at December 31 follows:

	2018	2017
Advertising and promotions	$ 955	$ 657
Directors' fees and expenses	362	340
Legal and professional expenses	1,307	1,068
Interchange expense	949	1,176
Supplies	304	323
Expenses on foreclosed assets held for sale	87	184
Other	5,023	4,540
	$ 8,987	$ 8,288

Note 11: Income Taxes

The provision (credit) for income taxes includes these components:

	2018	2017
Taxes currently payable	$ 3,171	$ 2,273
Deferred income taxes	(524)	1,001
Deferred tax asset write down due to the Tax Cuts & Jobs Act		
Net future deductions	-	1,029
Unrealized gain/loss on available-for-sale securities	-	42
	$ 2,647	$ 4,345

The Tax Cuts and Jobs Act (the "Tax Act"), enacted in December 2017, reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result of the Tax Act, the Company recorded a $1.07 million write-off of our net deferred tax asset, which was recorded as additional income tax expense during 2017.

A reconciliation of income tax expense at the statutory rate of 21% for 2018 and 34% for 2017 to the Company's actual income tax expense is shown below:

	2018	2017
Computed at the statutory rate	$ 2,616	$ 3,503
Increase (decrease) resulting from		
Tax-exempt interest	(148)	(293)
Life insurance income	(115)	(153)
State income taxes	375	181
Deferred tax asset write down due to the Tax Cuts & Jobs Act	-	1,071
Other	(81)	36
	$ 2,647	$ 4,345

The tax effects of temporary differences related to deferred taxes shown at December 31 follow:

	2018	2017
Deferred tax assets		
Allowance for loan losses	$ 2,071	$ 1,753
Foreclosed assets held for sale	89	34
Stock based compensation	115	92
Deferred compensation	838	816
Accrued expenses	247	190
Unrealized losses on available-for-sale securities	234	85
Other	223	185
	3,817	3,155
Deferred tax liabilities		
Depreciation and amortization	(641)	(727)
Prepaid expenses	(63)	(60)
Other	(189)	(117)
	(893)	(904)
Net deferred tax asset	$ 2,924	$ 2,251

Management believes it is more likely than not that all the deferred tax assets will be realized. The Company's net deferred tax assets are included in other assets in the consolidated balance sheets.

Note 12: Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), included in stockholders' equity follow:

	Unrealized Gains (Losses) on Available-for-sale Securities		
	Amount	**Tax Effect**	**Net of Tax**
Balance, January 1, 2017	$ (2,280)	$ 851	$ (1,429)
Included in comprehensive income			
Net unrealized gains on available-for-sale securities	1,939	(766)	1,173
Other comprehensive income (loss)	1,939	(766)	1,173
Balance, December 31, 2017	(341)	85	(256)
Included in comprehensive income			
Net unrealized losses on available-for-sale securities	(720)	149	(571)
Other comprehensive income (loss)	(720)	149	(571)
Balance, December 31, 2018	$ (1,061)	$ 234	$ (827)

Note 13: Stockholders' Equity

The Company issued 736,227 shares of common stock in December 2017 and 17,300 shares of common stock in January 2018 through a private placement offering. The offering was made solely to "accredited investors" as defined in Rule 501(a) promulgated by the Securities and Exchange Commission and to our employees through their participation in our BankFirst Financial Services 401(k) Profit Sharing Plan. The majority of the shares were issued to current shareholders, employees, and investors in our local markets.

Note 14: Regulatory Matters

The Bank may be required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. At December 31, 2018, no such reserve was required.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the

adequately capitalized risk-based capital ratios. The capital buffer is being phased in from 0.0% for 2015 to 2.50% on 2019. The capital conservation buffer for 2018 is 1.875%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2018 and 2017, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2018, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I risk based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following table presents actual and required capital ratios as of December 31, 2018 and 2017, for the Bank under the capital regulatory rules then in effect:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Common equity tier I	104,226	13.5%	34,768	4.5%	50,221	6.5%
Tier I capital (to risk-weighted assets)	104,226	13.5%	46,358	6.0%	61,811	8.0%
Total capital (to risk-weighted assets)	112,526	14.6%	61,811	8.0%	77,263	10.0%
Tier I capital (to average assets)	104,226	10.7%	38,810	4.0%	48,513	5.0%
December 31, 2017						
Common equity tier I	97,363	12.7%	34,419	4.5%	49,717	6.5%
Tier I capital (to risk-weighted assets)	97,363	12.7%	45,892	6.0%	61,190	8.0%
Total capital (to risk-weighted assets)	104,390	13.7%	61,190	8.0%	76,487	10.0%
Tier I capital (to average assets)	97,363	10.3%	37,956	4.0%	47,445	5.0%

Dividends paid by the Bank are the primary source of funds available to the Company for payment of dividends to its stockholders and for other cash needs. Applicable federal and state statutes and regulations impose restrictions on the amounts of dividends that may be declared by the Bank. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items, and, as a result, capital adequacy considerations could further limit the availability of dividends from the Bank. These restrictions are not anticipated to have a material effect on the ability of the Bank to pay dividends to the Company.

Note 15: Related Party Transactions

The Company had loans outstanding to executive officers, directors, significant stockholders and their affiliates (related parties) at December 31, 2018 and 2017. In addition to these loans, the Company has commitments to extend credit to these related parties which amounted to $1,554 and $1,520 at December 31, 2018 and 2017. The following is a summary of activity in related party loans:

	2018	2017
Balance, beginning of year	$ 2,615	$ 875
Advances	33	1,061
Change in composition of related parties	191	1,400
Repayments	(1,008)	(721)
Balance, end of year	$ 1,831	$ 2,615

Deposits from related parties held by the Company totaled $41,532 and $44,733 at December 31, 2018 and 2017.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

Note 16: Employee Benefits

401(k) Plan

The Company has a 401(k) plan covering substantially all full time employees of the Company and the Bank. Participants may make contributions to the plan in accordance with applicable regulations and the plan's provisions. The Company makes discretionary matching contributions and additional employer contributions at the discretion of the Board of Directors. The Company contributed $373 and $340 to the plan in 2018 and 2017.

Split-dollar Life Insurance Arrangements

For endorsement split-dollar life insurance arrangements, an employer must recognize the liability for future benefits based on the substantive agreement with the employee. The total accrued liability amounted to $658 and $668 at December 31, 2018 and 2017, and is included in other liabilities in the consolidated balance sheets.

Deferred Compensation Plan

The Company has deferred retirement arrangements for the benefit of certain directors, which generally provide for the payment of monthly benefits to participants at age 70 for a specified period of years. The Company is accruing the present value of the projected benefits to the date of retirement of the respective participants using a discount rate of 3.75%. The deferred compensation liability is included in other liabilities in the consolidated balance sheets.

The following is a summary of the deferred compensation liability:

	2018	2017
Beginning balance	$ 3,114	$ 3,265
Expense accrued	285	251
Payments	(432)	(402)
Ending balance	$ 2,967	$ 3,114

Note 17: Stock-based Compensation

Restricted Stock Plan

The Company has issued restricted stock agreements related to Common Stock. 55,300 shares of common stock have been issued and are outstanding at December 31, 2018. Of these shares, 38,600 shares vest at 10% per year from their respective grant dates and 16,700 shares vest at the end of a three year period. Compensation is being recognized on the straight-line method over the vesting period. These shares would become fully vested in the event of death of a participant or upon a change in control. Participants are entitled to receive dividends as compensation and to vote the restricted shares. Restricted shares may not be transferred by the participants. The Company recognized compensation expense of $174 and $178 related to these restricted shares during 2018 and 2017. Future expense related to these restricted shares was $586 and $566 at December 31, 2018 and 2017.

Note 18: Earnings Per Common Share

Basic earnings per common share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock grants as discussed in Note 17 and are determined using the treasury stock method.

Earnings per common share were computed as follows:

	2018	2017
Basic earnings per common share		
Net income available to common stockholders	$ 9,808	$ 6,131
Weighted-average basic common shares outstanding	3,873,221	3,135,693
Basic earnings per common share	$ 2.53	$ 1.96
Diluted earnings per common share		
Net income available to common stockholders	$ 9,808	$ 6,131
Weighted-average basic common shares outstanding	3,873,221	3,135,693
Effect of dilutive restricted stock grants	32,087	26,561
Weighted-average diluted common shares outstanding	3,905,308	3,162,254
Diluted earnings per common share	$ 2.51	$ 1.94

Note 19: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurement of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2018				
Available-for-sale securities				
U.S. Treasury	$ 13,068	$ 13,068	$ -	$ -
U.S. GSEs	18,845	-	18,845	-
Mortgage-backed securities	59,793	-	59,793	-
State and political subdivisions	31,033	-	31,033	-
Corporate debt securities	375	-	375	-
Collateralized debt obligations	223	-	223	-
	$ 123,337	$ 13,068	$ 110,269	$ -
December 31, 2017				
Available-for-sale securities				
U.S. Treasury	$ 1,950	$ 1,950	$ -	$ -
U.S. GSEs	22,185	-	22,185	-
Mortgage-backed securities	55,128	-	55,128	-
State and political subdivisions	36,635	-	36,635	-
Corporate debt securities	500	-	500	-
Collateralized debt obligations	2,015	-	2,015	-
	$ 118,413	$ 1,950	$ 116,463	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during 2018 or 2017.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include the remainder of the Company's available-for-sale securities. For these securities the Company obtains fair value measurements from an independent pricing service that considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, valuation matrices, credit information and the bond's terms and conditions. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities.

Nonrecurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

		Fair Value Measurements Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
December 31, 2018				
Impaired loans (collateral dependent), allowance for loan losses	$ 5,903	$ -	$ -	$ 5,903
Foreclosed assets held for sale	551	-	-	551
December 31, 2017				
Impaired loans (collateral dependent), net of allowance for loan losses	$ 5,454	$ -	$ -	$ 5,454
Foreclosed assets held for sale	791	-	-	791

Following is a description of valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during 2018 or 2017.

Impaired Loans (Collateral Dependent)

The estimated fair value of collateral dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral dependent impaired loans are classified within Level 3 of the fair value hierarchy.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value is determined on the basis of appraisals and evaluations. The Company's foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals are obtained when the real estate is acquired and subsequently as deemed necessary by management. Appraisers are selected from the list of approved appraisers maintained by management.

Another unobservable input used in the fair value measurement of collateral for collateral dependent impaired loans and foreclosed assets held for sale relates to the discounting criteria used to consider lack of marketability and estimated costs to sell. These discounts and estimates are developed by management by comparison to historical results. During 2018 and 2017, collateral discounts ranged from 0% to 100%, with an average discount of approximately 20% per property.

Fair Value of Financial Instruments

The following table presents carrying amounts and estimated fair values of financial instruments not carried at fair value at December 31, 2018 and 2017.

	December 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Level 2 Inputs:				
Cash and due from banks	$ 17,446	$ 17,446	$ 19,068	$ 19,068
Interest bearing bank balances	12,781	12,781	12,631	12,631
Federal funds sold	-	-	1,000	1,000
Interest receivable	3,733	3,733	3,523	3,523
FRB stock	1,548	1,548	1,089	1,089
FHLB stock	2,062	2,062	1,204	1,204
Level 3 Inputs:				
Loans, net	758,535	743,870	751,371	750,762
Financial liabilities				
Level 2 Inputs:				
Deposits	828,631	828,331	828,214	829,137
Notes payable	37,450	36,816	27,803	27,058
Subordinated debentures	11,186	11,186	13,686	13,686
Interest payable	646	646	425	425

FASB ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on either a recurring basis or non-recurring basis. In cases where quoted market prices are not available, fair values are generally based on estimates using present value techniques. The Company's premise in present value techniques is to represent the fair values on a basis of replacement value of the existing instrument given observed market rates on the measurement date. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates for those assets or liabilities cannot be necessarily substantiated by comparison to independent markets and, in many cases, may not be realizable in immediate settlement of the instruments. The estimated fair value of financial instruments with immediate and shorter-term maturities (generally 90 days or less) is assumed to be the same as the recorded book value. All nonfinancial instruments, by definition, have been excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The methodology and significant assumptions used in estimating the fair values presented above are as follows:

Cash and Due from Banks, Interest Bearing Bank Balances, Federal Funds Sold, FRB Stock, FHLB Stock, Interest Receivable and Interest Payable

The carrying amount approximates fair value.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Company would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity and the structure and term of the loans along with local economic and market conditions. Loans with similar characteristics were aggregated for purposes of the calculations. This process for estimating the fair value of net loans does not represent an exit price under FASB ASC Topic 820 and such an exit price could potentially produce a different fair value estimate at December 31, 2018 and 2017.

Deposits

Deposits include demand deposits, money market, NOW and savings accounts. The carrying amount of these deposits approximates fair value. The fair value of fixed-maturity certificates of deposit is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Notes Payable and Subordinated Debentures

The fair values of the Company's FHLB advances and subordinated debentures are based on the discounted value of contractual cash flows using current rates for debt with similar terms and remaining maturities for discounting purposes. The carrying amount of subordinated debentures approximates fair value, since the majority of these instruments have variable interest rates.

Note 20: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses and loan concentrations are reflected in the note regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk.

Investments

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. In management's opinion, the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Note 21: Commitments and Credit Risk

The Company's loan portfolio includes commercial, agricultural and real estate loans to borrowers primarily in its market areas in Mississippi and Alabama. Although the Company has a diversified loan portfolio, the Company has concentrations of credit risks related to the real estate market, the agricultural economy and general economic conditions in the Company's market area. Categories of loans are disclosed in Note 3.

As disclosed in Note 3, at December 31, 2018, the Company held $349,057 in loans collateralized by commercial real estate and $60,995 in loans collateralized by construction real estate primarily in the Company's geographic area.

Commitments to Originate Loans

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Credit card arrangements represent the amount that preapproved credit limits exceed actual balances. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

The Company had total outstanding standby letters of credit of approximately $959 and $1,373, had unused lines of credit to residential borrowers of approximately $14,010 and $14,539, had credit card arrangements of approximately $9,409 and $9,385, and other unused lines of credit and commitments to originate loans of approximately $101,262 and $105,937, at December 31, 2018 and 2017.

Note 22: Pending Acquisition

On November 14, 2018, the Company entered into an agreement to acquire FNB Bancshares of Central Alabama, Inc. (FNB). Pursuant to this agreement, FNB's 100% owned banking subsidiary, FNB Bank of Central Alabama (FNB Bank) will be merged into the Bank. The Company will acquire 100% of the common stock of FNB for $47,350 cash. FNB Bank, located in Pickens County and Tuscaloosa County, Alabama, had total assets of $287,836 and total liabilities of $257,532 at December 31, 2018. This transaction is subject to approval by the shareholders of FNB and approval by appropriate regulatory agencies. It is anticipated that this transaction will be completed at the end of the first quarter of 2019.

Note 23: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company.

Condensed Balance Sheets

	December 31,	
	2018	**2017**
Assets		
Cash	$ 730	$ 1,404
Investment in subsidiary	107,432	101,058
Investment in statutory trusts	189	189
Other assets	276	1,374
Total assets	$ 108,627	$ 104,025
Liabilities		
Subordinated debentures	$ 11,186	$ 13,686
Notes payable	6,750	7,750
Other liabilities	328	166
Total liabilities	18,264	21,602
Stockholders' Equity	90,363	82,423
Total liabilities and stockholders' equity	$ 108,627	$ 104,025

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31, 2018	Years Ended December 31, 2017
Income		
Other income	$ 8	$ 7
Total income	8	7
Expenses		
Interest expense	783	861
Other	371	156
Total expenses	1,154	1,017
Loss Before Income Tax and Equity in Undistributed Net Income of Subsidiary	(1,146)	(1,010)
Income Tax Benefit	246	376
Loss Before Equity in Undistributed Net Income of Subsidiary	(900)	(634)
Equity in Net Income of Subsidiary	10,708	6,765
Net Income	9,808	6,131
Other Comprehensive Income (Loss)	(571)	1,215
Comprehensive Income	$ 9,237	$ 7,346

Condensed Statements of Cash Flows

	Years Ended December 31,	
	2018	**2017**
Operating Activities		
Net income	$ 9,808	$ 6,131
Items not requiring (providing) cash		
Equity in net income of subsidiary	(10,708)	(6,765)
Other, net	1,247	(422)
Net cash provided by (used in) operating activities	347	(1,056)
Investing Activities		
Dividends received from subsidiary	3,950	6,050
Capital injected into subsidiary	-	(15,000)
Proceeds from the sale of foreclosed assets held for sale	-	130
Net cash provided by (used in) investing activities	3,950	(8,820)
Financing Activities		
Subordinated debentures redeemed	(2,500)	(2,500)
Note payable repaid	(1,000)	(1,000)
Common stock issued	376	15,864
Dividends paid on common stock	(1,847)	(1,427)
Net cash provided by (used in) financing activities	(4,971)	10,937
Change in Cash	(674)	1,061
Cash, Beginning of Year	1,404	343
Cash, End of Year	$ 730	$ 1,404

BANKFIRST
CAPITAL